

# FACE TO FACE



"I am very pleased to report to our shareholders and investors that we were able to accomplish substantial improvements over the previous fiscal year, thereby further enhancing the corporate value of the Komatsu Group. I would like to extend my sincere appreciation to our distributors and suppliers in addition to all employees of the Komatsu Group worldwide."



Kunio Noji, President and CEO



You have gotten the key to the office of the president from Mr. Sakane. Could you share your thoughts on management with us?

▲▲ **Noji:** My pleasure. Our conventional management policy will remain unchanged. That is, we promote self-initiated innovations in technology and management, provide the products -- both hardware and software -- that customers are happy to own, and maximize our corporate value. Thanks to Mr. Sakane's efforts with respect to the selective focus on our businesses, we are now ever better positioned to focus our efforts on the industrial-use machinery segment, in the broad sense of the term, centering on construction, mining and utility equipment as well as industrial machinery.

My mission is to strengthen our workplace capabilities,\* solve management issues one by one through teamwork with all employees, distributors and suppliers of the Komatsu Group, to further reinforce our business foundation and to promote sustainable growth in the core segment of industrial-use machinery. Furthermore, based on our belief that our corporate value is the total sum of trust given to us by society and all our stakeholders, I am determined to continue our efforts to further enhance this trust.

\* What we at Komatsu mean by workplace capability is each and every employee's power to continue his or her efforts to reform and improve with a concrete awareness of the issues that he or she is facing.

**Q** For the fiscal year ended March 31, 2007, Komatsu posted the fifth consecutive year of growth in sales and profits, renewing record-high profits for three consecutive years. What are the strengths of Komatsu which you think have made this excellent performance possible?

▲▲ **Noji:** We were able to make significant improvements again from the previous year. I believe it's a direct result of the collaboration between Komatsu Group employees around the world and sales and service distributors and suppliers. Simply put, it's our integrated capability. I would like to point out three major factors in relation to the construction and mining equipment business.

First, we were able to accurately project the dynamic growth in demand for our earthmoving equipment and thus produce them timely and flexibly. In addition to receiving information from our distributors, we were able to apprehend changes in demand quickly and accurately by applying our IT-based market information, such as KOMTRAX information. We were also better prepared for demand expansion than our competitors. In addition to having made aggressive capital investments to expand our production capacity for key components, such as engines and hydraulic equipment, we were able to start up two new plants.\*<sup>1</sup>

Second, our enterprise resource planning system integrated all major operations of the Komatsu Group around the world, particularly among production plants. Thanks to this ERP system, we have built a global production system in which production and development operations cooperate to support overseas plants under the leadership of Mother plants.\*<sup>2</sup> As a result, we were able to start up the production of our flagship medium-sized PC200-8 hydraulic excavators in Japan, the United States, Europe and Asia, almost simultaneously, for timely market introduction.

Third, the collaboration between our production and suppliers has been very effective. We have worked as one team to establish win-win relationships, for example, by sending engineers to each other's facilities in the product development stage. As a result, suppliers and Komatsu have achieved important improvements in quality, cost and delivery together. Based on such a mutual trust relationship, I feel grateful for the fact that they have actively kept up with the pace of our capital investments year after year to expand production.

Needless to say, good sales are based on the diligent activities of our distributors, marketing and product support people, who have built up a solid trust relationship with their customers.

In the industrial machinery, vehicles and others segment, we have expanded business by introducing new products with originality, such as AC Servo presses and hybrid electric forklift trucks, thus making a wider difference between our competitors and us. Our subsidiaries in this segment are also demonstrating their steady, independent growth.

\*<sup>1</sup> Ibaraki Plant for large dump trucks and wheel loaders and Komatsu India Private Limited for large dump trucks.

\*<sup>2</sup> Mother plants are factories with development capabilities for respective product categories. See the table on page 33 for more information.

**Q** You have just announced the mid-range management plan "Global Teamwork for 15." Please elaborate on the plan.

▲▲ **Noji:** First of all, the title "Global Teamwork for 15" expresses our firm determination to achieve an operating income ratio of 15% or higher for the fiscal year ending March 31, 2010, as all employees of the Komatsu Group around the world promote teamwork with our partners, that is, distributors, suppliers and customers. I have chosen this title after discussion with many people inside the company, because I like it very much. I am very thankful for this title.

With respect to specific numeric targets, we intentionally did not include sales. It's because it is becoming very difficult to predict market conditions over a few years. This is also because it may be possible to attain the target only with market growth. Therefore, we have set the operating income ratio of 15% or higher as our first target by emphasizing profits. Preconditions for this target are sales of ¥2,400 billion plus or minus ¥100 billion, and foreign exchange rates of ¥110 to US\$1 and ¥145 to euro, assuming a slight appreciation of the Japanese yen against both currencies. I believe our target of 15% for operating income ratio is fairly ambitious for anyone in the Japanese manufacturing industry. To achieve this target, we are going to concert our permanent efforts on our



previous tasks of enhancement of our market position in Greater Asia, market introduction of DANTOTSU products, and reduction of our fixed costs. In the new mid-range plan, we have included the establishment of flexible manufacturing operations for changes on the marketplace, expansion of the parts business, growth of the utility equipment business, and reinforcement of the industrial machinery business, as our focused tasks. We should be able to achieve these targets, when each and every employee of the Komatsu Group around the world improves his or her workplace capability to solve individual issues.

Concerning other numeric targets, we have set a 20% level to maintain for ROE and 0.2 or lower for net debt-to-equity ratio. While I think it will be quite a challenging task to achieve these targets into the future, we are nevertheless working to keep our top-level profitability and financial position in the industry. As for our payout ratio, we are continuing to uphold our conventional policy by having set a payout ratio of 20% or higher on a consolidated basis after excluding extraordinary profit or loss. We will work to redistribute profits to our shareholders with stable cash dividends.

#### Targets for FY2010

	Targets for FY2010	Results in FY2007
Operating income ratio	15% or above	12.9 %
ROE * <sup>1</sup>	20% or above	23.5 %
Net debt-to-equity ratio * <sup>2</sup>	0.2 or below	0.33
Consolidated payout ratio	20% or above (to continue current policy)	20.1%* <sup>3</sup>

\*<sup>1</sup> ROE = Net income for the year / ((shareholders' equity at the beginning + shareholders' equity at the end of the fiscal year) / 2)

\*<sup>2</sup> Net debt-to-equity ratio = (interest-bearing debt - cash and cash equivalents - time deposits) / shareholders' equity

\*<sup>3</sup> Consolidated payout ratio, based on income from continuing operations, for the fiscal year ended March 31, 2007 is 20.1%

	FY2010	FY2007
Net Sales	¥ 2,400 billion(+/- ¥100 billion)	¥ 1,893.3 billion
Foreign exchange rates	US\$ = ¥ 110	US\$ = ¥ 117
	Euro = ¥ 145	Euro = ¥ 151



Now I would like for you to discuss the focused efforts in the construction and mining equipment business. Specifically, what's your projection for demand, which is the assumptions underlying your efforts?

◀◀ **Noji:** Unlike the previous global demand for construction and mining equipment which was affected by the economic cycle centering on the United States, Europe and Japan, global demand since 2003 has been growing in new markets, particularly within the emerging powers of BRICS\*<sup>1</sup> and Greater Asia.\*<sup>2</sup> This increase was driven by growing demand in infrastructure development projects against the backdrop of ongoing urbanization. At the same time, demand for mining equipment is expanding around the world, reflecting thriving needs for raw materials and energy in these emerging powers. I believe that this trend will continue in the mid to long range.

Under such an environment, we are predicting that global demand will remain strong at an average annual growth rate of 6% into the fiscal year ending March 2010.

Looking at demand by region, we are estimating an average annual decline of 6% in the world's largest market of North America for the next three years. Specifically, we are projecting a drop of 15% primarily because of slowing housing starts in the current fiscal year and a decline as well in fiscal 2009.

In Greater Asia, where we have been focusing our efforts, there are many plans for infrastructure developments such as roadways and railways in addition to expanding demand for equipment in

resource and energy developments. In this light, we are projecting an average annual growth rate of 16% for the next three years. We are also estimating that Greater Asia's portion in global demand will expand to 36% in fiscal 2010 from 27% in fiscal 2007. In particular, we are expecting that demand in China, India and CIS could increase about 2-fold in fiscal 2010 from fiscal 2007.

As for European demand, fiscal 2007 showed a double-digit increase, supported by buoyant demand in eastern Europe in addition to the largest market of Germany. However, as we believe that demand will be fundamentally cyclical in western Europe, we anticipate an average annual growth of 5% for the next three years.

With respect to Oceania, Africa and Latin America, we are anticipating a steady increase at an average annual rate of 7%, driven especially by strong demand for mining equipment. In Japan, as the stock adjustment is almost over, we are looking into an average growth rate of about 2% for the next three years, almost on par with Japan's GDP growth rate.

\*1 In addition to Brazil, Russia, India and China, we include South Africa.

\*2 China, Southeast Asia, India, the Middle East and CIS.

Market demand growth

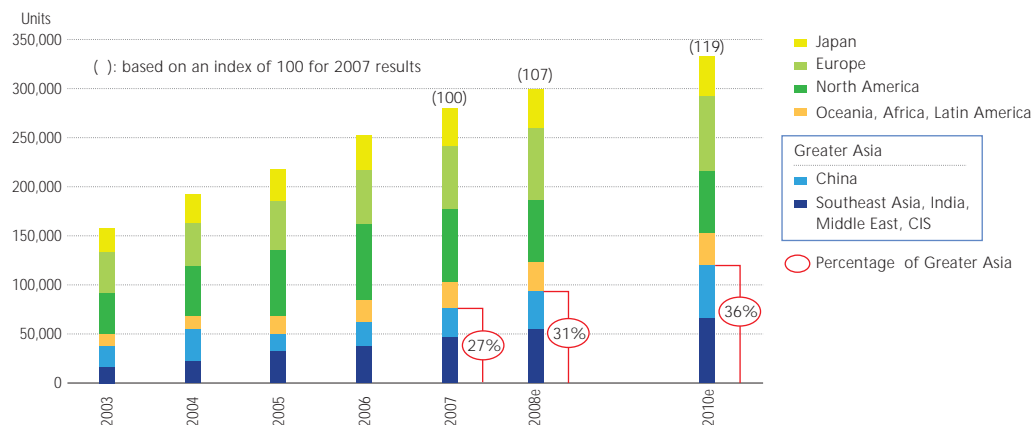
	CAGR*
Greater Asia	+16%
Oceania, Africa, Latin America	+ 7%
North America	- 6%
Europe	+ 5%
Japan	+ 2%
World	+ 6%

\* Compound annual growth rate

Market Demand Projection of Construction & Mining Equipment

Years ended March 31

\*Units: Estimated by Komatsu

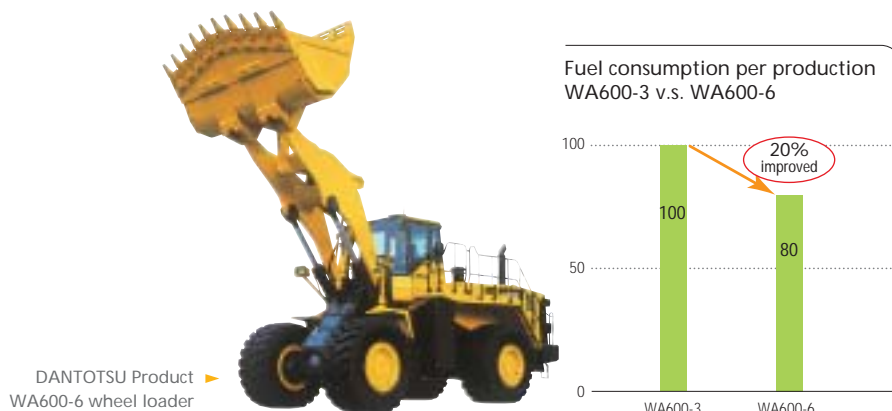


Figures are for 7 major products (excluding mini-equipment)

1.Crawler excavator, 2.Wheel excavator, 3.Crawler tractor, 4. Wheel loader, 5.Dump truck, 6.Articulated dump truck, 7.Motor grader

**Q** Now please turn your discussion to strategies for the construction and mining equipment business in the mid-range management plan.

▲▲ **Noji:** We will be focusing on five areas. They are the market introduction of DANTOTSU products, the further enhancement of our market position in Greater Asia, establishment of flexible manufacturing operations, expansion of our parts business, and reinforcement of our utility equipment business.





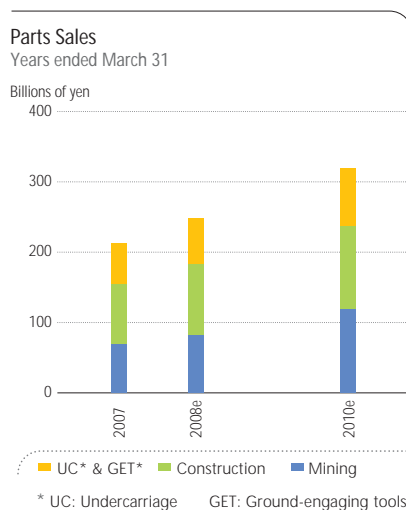
With respect to the development of DANTOTSU products, we are going to redouble our efforts in the area of improving fuel consumption. We believe it is very important for us to reduce our customers' running costs, particularly because of skyrocketed fuel price, and to alleviate environmental impact. We are also advancing our development of products designed to meet Tier 4 emission standards to be effective in 2011.

Now, Greater Asia. Thanks partly to positive outcomes of the first-stage Reform of Business Structure project, we have maintained our Number One market position there. However, as our competitors are concerting their efforts in fast-growth Asian markets, the competition will become much more intense. We are working to further enhance our market position by developing new products, especially attachments, which meet different regional needs, broaden our product range, and expand our local production in order to develop these new markets, while continuing to strengthen our product support capabilities.

Furthermore, monthly demand changes sharply in Asia, especially in China, it is very difficult to predict demand in the top sales season right after the Chinese New Year. In this light, it is becoming a very important strategy for us to conduct the best possible management of sales, production and inventories. To accomplish this objective, we are establishing an operational structure to obtain and share market information promptly by taking full advantage of IT applications like KOMTRAX, predict demand with a high accuracy, and feed it to plants through a direct link. Additionally, as demand for construction and mining equipment continues to expand worldwide, we are building a global cross-sourcing operational structure with which we will be able to use the most effective plants from a comprehensive perspective which considers demand, production capacity, foreign exchange and other factors. To this end, we are making a strategic investment of some ¥120 billion in production facilities over the next three years.

Another area of our focused efforts is the parts business. Parts are generally categorized into two types, that is, for mining equipment and for regular construction equipment. With respect to mining equipment, we are anticipating a substantial increase in demand for parts, as our delivery of mining equipment climbed from 2003 to 2006. Under normal conditions, mining equipment requires the overhauling of powertrain components, such as engines, transmissions and axles after 15,000 to 20,000 hours of use; we are estimating that we should see a peak in related parts demand in the 2008-2009 timeframe. Therefore, our urgent task is to expand the capacity and improve the efficiency of our Reman operation in order to capture this demand.

Concerning the parts for regular construction equipment, our task is to expand sales of wear parts, such as bucket teeth and undercarriages. As there are many third-party manufacturers of these parts, we are going to team up with our distributors in order to convince customers of the benefits of our genuine parts. This will require diligent effort on our part.



▲ Undercarriage



▲ GET (bucket & teeth)

### Utility Equipment



▲ Mini excavator



▲ Backhoe loader



▲ Skid steer loader



▲ Mini wheel loader



▲ Forklift truck

**Q** The mid-range management plan also calls for reinforcement of the utility equipment business. What is your strategy?

▲▲ **Noji:** As you might know, we merged Komatsu Forklift Co., Ltd. and Komatsu Zenoah Co. to form Komatsu Utility Co., Ltd. on April 1 this year. In our restart at this business, we have positioned mini construction equipment and forklift trucks on a unified management platform, thus accelerating the speed of management decision making. Furthermore, both types of equipment have many things in common, including the use of similar hydraulic mechanisms and compact size. By concentrating the management resources of the two companies, Komatsu Utility is striving for synergy in development and production in order to enhance individual product competitiveness and improve profitability and market positions.

In June 2006, we embarked on the mixed production of forklift trucks and mini wheel loaders on an assembly line of our Tochigi Plant. While we can assemble 12 different models on one line today, we are going to further enhance our productivity. In the area of development, we are going to use the same components for both forklift trucks and mini equipment in order to reduce production costs and enhance product competitiveness.

With respect to sales, there is room for us to improve our overseas market share for both mini construction equipment and forklift trucks. As it is with construction and mining equipment, Greater Asia is a very promising market for our mini equipment and forklift trucks. Therefore, enhancement of our market position there is a key for future growth of these products. At the same time, I believe that the development and market launchings of new products are also important to improve our market position.

In the area of forklift trucks, we have launched a new battery-powered ARION series and a hybrid model equipped with the world's first two electric power systems. The electric hybrid model features a maximum of 20% reduction of power consumption compared to standard battery-powered models. We are going to expand sales of these new models in order to improve our market position.

**Q** Would you talk about your future emphasis on the industrial machinery business?

▲▲ **Noji:** Certainly. Our industrial machinery business relies on the automobile manufacturing industry for about 60% of sales, and it is projected that this client industry will continue to enjoy 3% to 5% growth in its production volume annually well into the future.

In January of this year, we started the production of large presses at the Kanazawa Plant which we built adjacent to the Port of Kanazawa. As the Plant continues to move toward full-scale operation, we will make improvements in the production process to cut down the lead-time by half, thereby further enhancing productivity.

We also hope to develop and introduce many other DANTOTSU products like our large AC Servo presses. As our marketing task for this business, we are also going to reinforce our efforts in Greater Asia, like construction, mining and utility equipment. In particular, automobile production has been expanding sharply in India, and thus it is a very lucrative market for our industrial machinery business. In January this year, we won a large-scale order from an Indian carmaker, which includes 3,000-ton class transfer press and high-speed flexible transfer press lines. I believe our next important task is to build a customer support operation which includes maintenance service.

With NIPPEI TOYAMA CORPORATION, in which we invested last year, working teams of the two companies have been studying a strategic range of possibilities in collaboration. In this regard, we have happy news. We have received an order for a new system which combines NIPPEI TOYAMA's laser and our plasma cutting machine. We are also collaborating in package sales of their 3-D laser and our AC Servo press. I would like to see many more synergy effects like these during the current fiscal year.



**Q** Lastly, could you introduce The KOMATSU Way, which is one of the basic policies of the mid-range management plan?

◀ **Noji:** First of all, The KOMATSU Way is a set of core values that we would like to continue upholding in the Komatsu Group into the future even when employees change. I think of it as Komatsu's DNA. While I led The KOMATSU Way Division, we spent about a year and a half compiling the booklet *The KOMATSU Way* which was printed in July 2006. I have made over 50 presentations at Komatsu Group companies in Japan and overseas to promote the understanding of The KOMATSU Way among all employees of the Komatsu Group. Unlike the business philosophies of other companies, we made The KOMATSU Way to include a wide scope

of corporate domains ranging from *Monozukuri* or manufacturing competitiveness to corporate governance. The KOMATSU Way is characterized by the following two aspects. First, it contains the Top Management section in which we have identified five principles to be spearheaded by top management. Needless to say, I am committed to carrying out all five myself.

### Five Principles

1. Vitalize the functions of the board of directors.
2. Take the initiative in communicating with all our stakeholders.
3. Comply with the rules of the business community.
4. Never put off responses to risks.
5. Keep thinking about your successor.

### Seven Ways of Komatsu

1. Commitment to Quality and Reliability
2. Customer Oriented
3. Defining the Root Cause
4. Workplace (*Genba*) Philosophy
5. Policy Deployment
6. Collaboration with Business Partners
7. Human Resource Development

Second, the Common to All Divisions/Companies section, designed for all employees, emphasizes *Monozukuri*. We have identified seven ways of *Monozukuri*, including Komatsu's strengths, and beliefs, patterns of behavior and know-how that our forerunners have learned from their experiences of both success and failure in the course of Komatsu's growth. This *Monozukuri* doesn't only refer to activities on the plant floor in the narrow sense of the term but includes all activities undertaken by internal divisions, such as development, production, sales, service and administration, and the activities of our distributors and suppliers, all in the spirit of teamwork. All our divisions have also compiled division-specific KOMATSU Way and have been working to disseminate them to their respective counterparts of the Komatsu Group around the world to share the same values. Because of The KOMATSU Way, I am confident and determined to accomplish all targets of the mid-range management plan "Global Teamwork for 15."

Note: See the feature section entitled The KOMATSU Way on pages 17 through 23 for more details.